

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1669-05
Bill No.: HCS for HB 780
Subject: Economic Development; Taxation and Revenue
Type: Original
Date: April 17, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$864,749 to Unknown)	(\$865,749 to Unknown)	(\$867,032 to Unknown)
Total Estimated Net Effect on <u>All</u> State Funds	(\$864,749 to Unknown)	(\$865,749 to Unknown)	(\$867,032 to Unknown)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government*	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown

*** Pending voter approval**

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** assumes the following sections will have the stated fiscal impact to their agency;

Section 67.1300 adds a sales tax - no fiscal impact on DED.

Section 67.1360 allows Newton County to impose a local sales tax on sleeping rooms. This will have no fiscal impact on DED.

Section 135.200 adds classifications that qualify for Enterprise Zone. No fiscal impact on DED.

Section 135.208.12 adds 8 new enterprise zones in St. Louis County: Berkeley, Beverly Hills, Cool Valley, Ferguson, Jennings, Kinloch, Northwoods and Pine Lawn. DED assumes the cost to be \$352,000 each (total of \$2,816,000) and require one FTE to administer.

Section 135.230 - changes the residency requirement for Enterprise Zone credits. This part of the bill is the same as FN 1886-01. However, DED has re-evaluated this original response. DED originally predicted a \$0 to \$200,000 impact. DED now projects the impact to be \$0. This change in response from 1886-01 is based on additional input from the cycle manufacturer impacted by the NAICS code.

Section 135.411 – requires businesses in distressed communities benefitting from Capital Tax Credits to remain in the distressed community for five years after the investment/tax credit. The DED is given authority to revoke and pro-rate revocation or recapture of credits. Sale of a business does not automatically trigger a revocation if the business continues. No fiscal impact on DED.

Section 135.484 - allows reallocation of Neighborhood Preservation Tax Credits. No fiscal impact on DED.

Sections 135.500, 503, & 516 - CAPCO - adds authority for an allocation of tax credits for investments in CAPCOs totaling \$50 million. The credits are taken over a period of ten years (\$5 million per year). 25% of the CAPCO investments from this allocation would need to be in qualified MO agricultural businesses. A revision of the current rules and regulations for the CAPCO program would need to be undertaken by DED. DED approves the CAPCOs and authorizes the tax credits to investors. This requires DED to set up a standard set of guidelines for the CAPCOs to follow during the process. There is then daily monitoring of the program, including approving investments in the qualified small businesses, collecting quarterly reports,

ASSUMPTION (continued)

and making sure the necessary reporting is completed. The DED would be required to administer and oversee the additional credits.

DED assumes the revised CAPCO program will cost an additional \$5 million per year in credits for 10 years plus require an Economic Development Specialist II. This person would be responsible for approving the CAPCOs, authorizing tax credits and monitoring progress of the investments and overall program. DED also assumes the need for a Clerk Typist II. This person was not requested in last years fiscal note - 3852. However, further review of the requirements dictates the need. The Clerk Typist II would be responsible for assisting the Econ. Dev. Specialist II with monitoring the CAPCO program, which includes, typing tax credit authorizations, miscellaneous letters and reports, setting up meetings, etc.

Section 135.530 - Changes the definition of distressed community in areas of Kansas City. Most programs with credits for activities in distressed communities are capped so this change will have no fiscal impact on those programs, but the new or expanding business facility tax credit, an uncapped entitlement program, awards enhanced credits for businesses in distressed communities. DED is unable to ascertain the fiscal impact the addition of new areas to the distressed communities definition would have on the program.

Section 208.770 - Family Development Account. This change reduces the FDA credits from \$4 million to \$2 million per year. A savings of \$2 million per year.

Section 620.1450 - Individual Training Account (ITA) Program is reduced from \$6 million per year to \$1 million per year resulting in a \$5 million savings.

If tax credits increase above the DED estimated amounts, DED may have to request additional FTE or funding in the future.

Regarding Section 135.484, in response to legislation from this year, DED stated that in calendar year 2000, the entire \$8,000,000 in "qualifying residence" program credits were utilized, while \$5,000,000 (out of \$8,000,000) in "eligible residence" program credits were utilized, leaving \$3,000,000 in tax credits not utilized.

Oversight assumes 70% of the unused tax credits, \$2,100,000 (70% x \$3,000,000) could be shifted to be utilized by the other program. Since 2000 was the first year of the program, there is not enough historical data to determine if only \$5,000,000 of the \$8,000,000 in "eligible residence" program credits would be utilized consistently, therefore, Oversight has ranged the impact of this proposal to \$0 (reflecting all \$8,000,000 in each program would be utilized before a reallocation) to a negative \$2,100,000 impact to state revenues.

ASSUMPTION (continued)

Oversight assumes the Department of Economic Development could use resources saved from the reduction of the Family Development Account as well as the Individual Training Account Program to help administer the additional \$50,000,000 in CAPCO tax credits and therefore, will not require the additional FTE requested for that program. This additional amount will be the fourth round of CAPCO tax credits administered, bringing the total credits authorized to \$190,000,000. Since many of the same investors participate in each round of tax credits, DED's efforts to collect reports, monitor investments, etc. is aided by having fewer contacts. Oversight also assumes DED will not require additional lease space for the additional FTE requested for the new enterprise zones and has adjusted the personal service expense to reflect a starting salary.

Officials from the **Department of Insurance (INS)** states this proposal adds Missouri Agriculture business to those eligible to receive capital investments. After August 28, 2001, 25% of such qualified investments must be in a qualified Missouri Agriculture businesses.

The INS assumes this legislation modifies the aggregate credits allowed by authorizing an additional \$5 million in year 2001 and an amount not to exceed 10% of cumulative credits earned in previous years for every year thereafter, beginning in 2002. Premium tax revenues collected could decrease by \$5 million in calendar year 2001, but the impact of capping aggregate credits at 10% of cumulative credits earned in previous years cannot be determined. Premium tax revenues are split 50/50 between General Revenue and County Foreign Insurance Fund.

Oversight assumes that premium tax credits being utilized through the CAPCO program only reduce the General Revenue Fund, and do not impact the County Foreign Insurance Fund.

The **Department of Revenue (DOR)** does not anticipate a significant increase in the number of new credits filed. Therefore, the DOR will not request additional FTE at this time.

However, if the DOR is incorrect in this assumption, they assume they will need one Temporary Tax Season Employee for every 75,000 additional credits, one Tax Processing Tech I for every 30,000 additional errors generated and one Tax Processing Tech I for every 3,000 additional pieces of correspondence received regarding this credit. Any FTE needed will be requested during the normal budget process.

In response to similar legislation from this year, officials from the **Department of Agriculture** assumed this proposal would not fiscally impact their agency.

Officials from the **Department of Economic Development - Division of Tourism** states this proposal would fiscally impact their agency.

ASSUMPTION (continued)

Officials from **Caldwell County** state that a 1/2 cent sales tax imposed in the county would generate roughly \$120,000 in revenue per year.

Oversight assumes, pending voter approval in 2001, the sales tax may be effective January 1, 2002.

Officials from **Newton County** state that currently, two communities (Joplin and Neosho) within their county already have sales taxes on transient guests. They could not provide Oversight with a fiscal estimate.

In response to similar legislation from this year, officials from the **City of Salem** stated with passage of this legislation, a new 65 room hotel facility will probably be built in their community. The City of Salem estimates the annual revenues from this facility for the city, including sales tax and increased property taxes would be roughly \$11,521. The City of Salem also estimates that gross water and electric revenues for this new facility would be roughly \$60,000 to the City.

Oversight assumes the state will not be fiscally impacted from this part of the legislation. Oversight also assumes the local taxing and governing authorities may grant an exemption (in whole or in part) of property taxes to this new hotel after holding the required public hearings on the matter, therefore, has estimated the local impact as zero.

Oversight also assumes the expansion of the employees who count toward the residency requirement at the Harley Davidson plant in Kansas City may have a fiscal impact on the state and have used DED's original response.

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
<u>Costs</u> - Certified Capital Company Program	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)
<u>Costs</u> - Eight additional enterprise zones	(\$2,816,000)	(\$2,816,000)	(\$2,816,000)
<u>Costs</u> - Reallocation of Neighborhood Assistance Tax credits.	\$0 to (\$2,100,000)	\$0 to (\$2,100,000)	\$0 to (\$2,100,000)

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
<u>Costs</u> - Possible new/expanded business facility tax credit in new distressed area	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Savings</u> - Family Development Account Program	\$2,000,000	\$2,000,000	\$2,000,000
<u>Savings</u> - Individual Training Account Program	\$5,000,000	\$5,000,000	\$5,000,000
<u>Costs</u> - Business Facility Tax Credits	\$0 to (\$200,000)	\$0 to (\$200,000)	\$0 to (\$200,000)
<u>Costs</u> - DED			
Personal Service (1 FTE)	(\$25,625)	(\$31,519)	(\$32,307)
Fringe Benefits	(\$8,541)	(\$10,505)	(\$10,768)
Expense and Equipment	<u>(\$14,100)</u>	<u>(\$7,725)</u>	<u>(\$7,957)</u>
<u>Total Costs</u> - DED	(\$48,749)	(\$49,749)	(\$51,032)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(\$864,749 to Unknown)</u>	<u>(\$865,749 to Unknown)</u>	<u>(\$867,032 to Unknown)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
NEWTON COUNTY			
<u>Revenue</u> - sales tax on transient guests	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
CALDWELL COUNTY			
<u>Revenue</u> - sales tax*	\$0 to \$60,000	\$0 to \$120,000	\$0 to \$120,000

*Pending voter approval

FISCAL IMPACT - Small Business

This proposal would fiscally impact small businesses that qualify for and receive investments from the Certified Capital Companies or qualify for tax credits. This proposal puts an emphasis on investment into small agriculture companies.

DESCRIPTION

This substitute does the following:

- (1) Allows Caldwell County to impose a sales tax on all retail sales with a vote of the people;
- (2) Allows the residents of Newton County to impose a hotel/motel sales tax in addition to any transient guest tax currently in effect of between 2% and 5%;
- (3) Expands the definition of a "revenue-producing enterprise," as it relates to enterprise zones, to include hotel and motel activities in the City of Salem;
- (4) Designates the following cities in St. Louis County as enterprise zones: Berkeley, Cool Valley, Beverley Hills, Ferguson, Jennings, Kinloch, Northwoods, and Pine Lawn;
- (5) Requires the Director of the Department of Economic Development to reallocate very specific tax credits into other related tax credit programs;
- (6) Allows any employee of a new business facility with the North American Industry Classification System Number 336991 to be considered a resident of an enterprise zone, even if the employee ceases to live in an enterprise zone, as long as the following conditions are met:
 1. The individual was a resident of an enterprise zone for one calendar month prior to his employment with the new NAICS 336991 business facility;
 2. The individual remains employed with the new NAICS 336991 business facility, and;
 3. The individual continues to reside in Missouri.An NAICS 336991 business relates to motorcycles, bicycles, and parts;
- (7) States that the amount of the qualified investment made in a Missouri small business must remain in that business for a minimum of 5 years and, if the business is in a distressed community, it must remain in the distressed community for 5 years;

DESCRIPTION (continued)

(8) Revises two tax credit programs. Under current law, of the \$16 million in community improvement tax credits allowed, \$8 million are to be allocated for "eligible residence" programs and \$8 million for "qualifying residence" programs. The substitute states that if, by October 1 of the calendar year, the Director of the Department of Economic Development has issued all \$8 million of the credits allowed for one of these programs and not the entire \$8 million allowance for the other program, the director is required to reallocate 70% of any unused tax credits from the program which has not reached its \$8 million cap to the one which has. The reallocated credits will be given to taxpayers who have applied for, but have not received, tax credits in that same year and who are engaged in projects in the area where the tax credit cap has been met for that same year. The maximum reallocated tax credit for any project cannot exceed \$560,000;

(9) Changes the definition of "capital in a qualified Missouri business" to include "capital in a qualified Missouri business or a qualified Missouri agricultural business," and requires that, of the certified capital raised after August 28, 2001, at least 25% of the dollar amount must be invested in qualified Missouri agricultural businesses;

(10) Changes the cap on the total amount of certified capital for which earned and vested credits against state premium tax liability are allowed. For calendar year 2001, the bill sets the cap at an amount which would entitle all Missouri certified capital company investors, on an aggregate basis, to take an additional \$5 million in tax credits. The amount of credit that may be taken on an annual basis may not exceed an amount equal to 10% of the cumulative credits earned in respect of certified capital invested in previous years;

(11) States that any certified capital which is controlled totally by a Missouri certified capital company can now be invested with an investor of the Missouri certified capital company or an affiliate or subsidiary which is providing a guaranteed payment in favor of the investors that have invested certified capital in the company;

(12) Expands the definition of a "distressed community" to include specific areas of Kansas City and St. Louis County;

(13) Reduces the limit on tax credits relating to the Family Development Account Program from \$4 million to no more than \$2 million per year; and

(14) Reduces the limit on tax credits relating to the Individual Training Account Program from \$6 million to no more than \$1 million annually.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

L.R. No. 1669-05
Bill No. HCS for HB 780
Page 9 of 9
April 17, 2001

Department of Economic Development
Department of Insurance
Department of Revenue
Department of Agriculture
Caldwell County
Newton County
City of Salem

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "Jarrett".

Jeanne Jarrett, CPA
Director

April 17, 2001